

Purchasing (revised 9/5/02)

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Purchasing

INTRODUCTION

Municipalities regularly purchase a wide variety of goods and services, such as: office supplies and equipment, utilities, rented space, legal and accounting services, insurance, tools, and vehicles, as well as land and buildings. Most larger Alaskan communities have policies and procedures that are designed to ensure that their purchasing activities comply with state laws and local ordinances, are subject to proper administrative control, encourage competitive pricing among vendors, and are generally efficient.

Smaller municipalities, however, often have few established policies and procedures for purchasing. In smaller communities it is common that different employees decide the need for the goods or services, decide the types and quantities to purchase, select vendors, place orders, receive shipments, and, perhaps, pay cash or issue checks in payment for the goods and services received.

Examples of Problems Arising From Uncoordinated Purchasing

- Placing duplicate orders for supplies or materials.
- Ordering the wrong types or quantities.
- Paying for defective goods or for some items that were not shipped.
- Making duplicate payments for a shipment.
- Paying higher prices than necessary.

When purchasing is uncoordinated, some spending may go over the limits set in budget, the municipality may not have enough cash on hand to pay the bills when they are due, and the lack of documentation may make proper bookkeeping very difficult.

This section presents a few basic purchasing controls “policies and procedures” that focus on the purchase of supplies, materials, and other goods that are normally considered operating expenses. It does not address contracting for professional services such as legal and accounting services (see Chapter 6, Legal Requirements, and Chapter 3, Financial Management – Audit Requirements) or the acquisition of municipal lands (Chapter 4).

This section begins with an overview of purchasing controls and reviews the objectives of a purchasing system. It outlines purchasing regulations and operating procedures that are reasonable for a small government. In addition, it briefly discusses a related activity – establishing and maintaining an inventory system for property control.

OVERVIEW OF PURCHASING CONTROLS

Purchasing Objectives

A good purchasing systems provides for economy and efficiency. Besides getting supplies, equipment, and services as economically as possible, having purchasing controls in place will assure materials purchased are best suited to the specific needs of the municipality. Enough supplies should be on hand, as needed, to avoid any interruption in the delivery of services to the public.

Coordinating purchases with cash flow to ensure cash is available to make payments for goods and services when due is an objective of a good purchasing system. Such a system provides enough documentation of purchasing transactions to meet the needs of the city's bookkeeping system and assures that only those purchases authorized by the budget are made.

Elements of a Purchasing System

Establishing a purchasing system requires establishing written policies and procedures and authorizing only certain people as approved purchasers.

Each municipality needs to develop a purchasing system that is tailored to its specific needs and circumstances, such as: its organization, the size and experience of its staff, and the types of goods and services it regularly uses in its daily operations. For instance, there will be different purchasing policies and procedures needed by a municipality with several departments and a staff of 20, than by one that has a staff consisting of the mayor, clerk-treasurer, and part-time bookkeeper. Similarly, a municipality that provides road maintenance and fire protection will have a different purchasing system than one that only operates a community building. Every purchasing system, however, has common elements that its policies and procedures need to address. These are:

1. Identification of authorized purchasers
2. Delegation of purchasing responsibility.
3. Preparation of purchase requests.
4. Authorization of purchases.
5. Selection of vendors.
6. Preparation of purchase orders.
7. Inspection of deliveries.
8. Receipt and payment of invoices.
9. Recording of bills and payments.

Centralized Purchasing

Centralized purchasing means that rather than having several people involved in purchasing (decentralized purchasing), only one person or office is authorized to purchase goods and services for the organization. Small municipalities may assign purchasing duties to a person who has other responsibilities as well. In most cases, this would be the treasurer, city clerk, or city administrator, but it might be the public works director or some other official. The person appointed becomes the **purchasing agent**.

Purchasing Regulations

The governing body should adopt written rules and procedure, also known as regulations, that set out the general duties of the purchasing agent (or department), and the general procedures to be followed for purchasing. These should be broad enough in scope to cover the general duties of a purchasing agent. The following topics should be included in these regulations:

- The general duties of the purchasing agent.
- The dollar limit above which competitive bids will be required.
- How to purchase items not requiring bids.
- Petty cash fund limits and procedures.
- How, and under what conditions, emergency purchases can be made.
- How and when to recognize receipt of materials and supplies.
- How to maintain property control records.

All personnel need to be informed of the process to reduce confusion about who is in charge of the purchasing. Following is an example procedure:

Chapter 3.16

CONTRACT, PURCHASE, AND SALE PROCEDURE

Sections:

- 3.16.010 Contract, purchase, sale, and transfer procedure.
- 3.16.020 Limitation on mayor's authority.
- 3.16.030 Open market procedures.
- 3.16.040 Advertising for bids.
- 3.16.050 Processing of bids.
- 3.16.060 Local preference.
- 3.16.070 Exceptions to bidding requirements.
- 3.16.080 Lowest responsible bidder.
- 3.16.090 Requirements mandatory.

Operating Procedures for Purchasing

The procedure for purchasing should be included in the municipal administrative manual. The administrative manual should set out the responsibilities, specific procedures, and forms that will be used in each step of the purchasing cycle, and procedures that may be used in unusual circumstances. The procedures should be designed to meet the specific needs of your individual organization. The information included should cover:

- Preparing purchase requests.
- Authorizing purchases.
- Preparing purchase orders.
- Inspecting and testing of goods received.
- Authorizing and making payment for purchases.
- Soliciting bids.

- Exceptions to the normal purchasing process.

THE PURCHASING CYCLE

Preparing Purchase Requests

The first step in the **purchasing cycle** is preparing the **purchase request**. The purchase request is a document used to inform the purchasing agent that an office or a department needs to buy something. It is the basis for preparing a purchase order. The request may be a note, a memo, or a preprinted requisition form, but it should always be in writing. **Purchase request forms** are available at most office supply stores. A purchase request usually includes the following information:

- Department name.
- Date.
- Account code to be charged.
- Requisition number.
- Desired delivery date.
- Description, model number, or specifications of required purchases.
- Quantity required.
- Unit price.
- Authorized signatures.

The number of copies required can range from an original for the purchasing agent and a file copy for the office submitting the request, to a three-part form (adding a copy for bookkeeping).

SAMPLE PURCHASE REQUEST											
DEPARTMENT _____	DATE _____										
APPROPRIATION # _____	REQ. NO. _____										
DATE WANTED _____	PURCHASE ORDER # _____										
<table style="width: 100%; border-collapse: collapse;"> <tr> <th style="text-align: left; border-bottom: 1px solid black; width: 15%;">QUANTITY</th> <th style="text-align: left; border-bottom: 1px solid black; width: 60%;">FULL DESCRIPTION OF REQUIRED PURCHASE</th> <th style="text-align: left; border-bottom: 1px solid black; width: 15%;">UNIT PRICE</th> <th style="text-align: left; border-bottom: 1px solid black; width: 10%;">TOTAL</th> </tr> <tr> <td colspan="4" style="height: 40px;"></td> </tr> </table>				QUANTITY	FULL DESCRIPTION OF REQUIRED PURCHASE	UNIT PRICE	TOTAL				
QUANTITY	FULL DESCRIPTION OF REQUIRED PURCHASE	UNIT PRICE	TOTAL								
PURPOSE FOR THIS ORDER: _____ SUGGESTED VENDOR: _____ Address _____ SHIP PREPAID TO: _____ Address _____											
The items listed above are a proper charge and the services or materials are to be used exclusively for the purpose against which said items are charged.											

Approved: _____
Department Head

Authorized Purchaser

Authorizing Purchases

Upon receipt of the purchase request, the purchasing agent -- frequently, the clerk-treasurer in a small municipality -- will look at the available funds and check the cash flow schedule. If funds are available, the treasurer will write "funds available" on the request, initial it, and forward the purchase request to the mayor or manager for approval.

The authorized purchaser, after reviewing the request and checking the budget, city ordinances, and any other reference that might apply, approves or disapproves the purchase request and returns it to the purchasing agent. This approval authorizes the treasurer to prepare and issue the purchase order.

Preparing Purchase Orders

The **purchase order** is a multiple copy form, which is used to authorize the vendor to supply the goods or services ordered. It may include as many as four copies. Purchasing should keep one copy for its files, send two to the vendor, one to the originating office and one might be sent to bookkeeping. The actual number of copies your organization uses may vary. Purchase orders are available from most office supply stores.

Information on the purchase order should include:

- A description of the items or services ordered.
- The quantity and price.
- The purchase order number.
- The account number to be charged.
- The point of delivery.

Purchase orders should be pre-numbered to maintain control over the issuance of purchase orders and to compare the purchase order to the invoice when the bill is received.

SAMPLE PURCHASE ORDER

ADDRESS VOUCHER:
ATTENTION: PURCHASING OFFICER
Name of city _____
Address of city _____

SHOW ORDER NO. ON ALL INVOICES, DELIVERY SLIPS, PACKAGES, ETC. N. 1349-72

OUR

	DATE _____	ORDER NO. _____
		VENDOR _____
	WANTED _____	ORDER NO. _____

VENDOR: Please furnish the following to the City of _____ and be governed by the institutions herein:

QUANTITY ORDER	DESCRIPTION	UNIT PRICE	AMOUNT
<p style="text-align: center;">PLEASE SIGN <u>ATTACHED</u> VOUCHER AND RETURN VOUCHER ONLY FOR PAYMENT</p> <div style="display: flex; justify-content: space-between;"> <div style="width: 45%;"> <p>_____ Purchasing Officer</p> <p>SHIP TO:</p> <p>invoices</p> <p style="text-align: center;">I M P O R T A N T</p> <p>NO PURCHASES ARE VALID UNLESS COVERED BY THIS FORM SIGNED BY THE TREASURER AND COUNTERSIGNED BY THE CITY ADMINISTRATOR. SUBMIT INVOICE ON ACCOMPANYING VOUCHER FORM, WHICH MUST BE SIGNED AND SWORN TO. ADDRESS ALL CORRESPONDENCE TO PURCHASING OFFICER.</p> <p>SIGNED _____ City Treasurer</p> </div> <div style="width: 50%;"> <ul style="list-style-type: none"> A. Do not ship Express. B. Enclose shipping memo with each delivery. C. Do not make "COLLECT" shipments. Pre-pay cartage and include on bill. D. All goods received will be inspected and returned at Vendor's expense if defective or not in compliance with our specifications. E. Purchase order number must appear on all F. Make a separate invoice for each purchase order and enclose with our invoice voucher. G. The attached invoice voucher must be signed and returned before payment is made. <p>F.O.B. _____</p> <p>TERMS _____</p> <p>COUNTERSIGNED _____ City Administrator or Mayor</p> </div> </div>			

Inspecting and Testing of Goods Delivered

Inspecting and testing of materials and equipment usually occurs at the time of delivery. The person receiving the materials or equipment should ensure that the quantity and quality of the delivered goods are as ordered. The person inspecting the delivered item(s) needs to be familiar with the item(s). As an example, the water plant operator should inspect materials that will be used in the water plant and the clerk or administrator should be inspecting items that will be used in the administrative offices. Don't leave ordered goods unopened. If there are any problems, the

purchasing agent should be notified at once. The purchasing agent should contact the supplier as soon as possible to clear up the problem. The shipping invoice or packing slip that comes with the shipment should be sent to the purchasing agent. The purchasing agent attaches it to the purchase order to show that the shipment has been received. The purchasing agent should not issue a payment upon receipt of a shipping invoice or packing slip. Payment should be made only when the bill is received.

Making Payment

Payment for materials, equipment, or services should be made only when a vendor supplies a billing invoice, showing that the purchase was made from an authorized purchase order. The purchase order number should be listed on the vendor's bill, or a copy of it may be attached. The billing invoice should be checked against the purchase order to verify that the shipment has been received. This process should be followed to ensure that unauthorized orders or inaccurate invoices are not paid. This process avoids possible scams. As an example, dishonest vendors have been known to send overpriced goods to small communities that were never ordered. They then send a bill in hopes that a worker will think the goods were ordered and pay the overpriced bill. After payment is made, the invoice should be marked paid and then filed in the vendor file.

Exceptions to Normal Purchasing

Typical exceptions to this purchasing procedure include emergency buying and buying from the petty cash fund.

Emergency Purchases

The written purchasing procedures should explain how, and under what conditions, emergency purchases can be made. In an emergency, a purchase order is authorized and issued without delay. For documentation, a regular request should then be prepared and submitted to the purchasing agent, within a specific time, such as 24 hours after the purchase is made. It should show the emergency purchase order number and all the relevant facts about the purchase. If the mayor or manager has assigned the authority to approve purchases to another employee, such as the city administrator, emergency purchases higher than a certain dollar amount should require the mayor or manager's approval in addition to the administrator's. Although the authorization for the emergency purchase may have been given verbally, the mayor should sign the emergency purchase request to confirm that it was authorized.

Purchasing from Petty Cash Funds

A **petty cash fund** is used primarily to buy small items needed at once. It eliminates the need to write numerous purchase orders, and therefore saves time, supplies, and money. The purchasing policies and procedures should set out the maximum amount of money that can be spent out of petty cash for any one purchase (we recommend that any purchase over \$15 be done by check).

Those who use petty cash should fill out a petty cash form in duplicate and attach the receipts to the original. The duplicate should be given to bookkeeping to document and account for the expenditure. The petty cash fund should be replenished from time to time as necessary.

Bids for Purchases

Most municipalities require that bids be used when purchasing items that cost over a certain amount. Several factors should be weighed when establishing this amount. The more bids are used, the more likely the municipality will get a better price for purchases, because competition is encouraged. On the other hand, it costs money to solicit bids and takes additional time to go through the process, so this should be considered when deciding if there is a cost savings involved.

3.16.040 Advertising for bids. A. Purchase, sale, or contract authorized by Section 3.16.010 having an estimated value of more than three thousand dollars may be made only after a notice calling for bids is printed in a newspaper of general circulation published within the borough once a week for not less than three consecutive weeks prior to the date for the bid award. The notice shall contain a general description of the property, work, or service; state where the bid forms and specifications may be obtained; specify the bids are to be submitted and the time by which they must be received. B. The purchase or contract shall be awarded to the lowest responsible bidder, or in the case of a sale, to the highest responsible bidder. (Ord. 76-6-0 §1 (part), 1976)

Competitive Bidding Guidelines

Purchasing policies and procedures should set out the guidelines to be used in competitive bidding. They should include the following steps:

- Formal advertisement of the bid through newspapers and publications, etc. The advertisement should contain all details of what is to be purchased through the bid process, and dates by which bids must be received. A contact person should be listed, along with an address and phone number for additional information.
- When interested bidders contact the municipality, they should be sent a **"request for proposals"** form. (The terms "request for bids" and "request for quotations" are sometimes used instead.) The form should request the bidder to provide at least the following information:
 - Complete description of item(s) to be supplied to the municipality.
 - Date the item(s) will be delivered on site in the municipality.
 - Total costs, including shipping.
 - Statement of how long the price quote is guaranteed.
 - Signature of an authorizing agent of the bidder, which binds the bidder to the specifications and price quoted in the bid.

The form should be filled out by the bidder and returned in a sealed envelope.

- All bids should be delivered by the date and time stated in the advertisement for bids.
- Bidders and the public should be notified in advance of the time and place for opening of the bids.
- Each bid should be inspected to confirm that it meets the municipality's specifications and the total of each bid should be tabulated and announced.
- The bids should be submitted to the governing body for formal selection of the lowest and best bid. The municipality may reject any or all bids if they are over the budgeted amount for the item(s) requested or if the municipality otherwise determines that the costs are excessive or that a bid fails to meet fully the needs of the municipality. A bid may also be

rejected if there is reason to suspect the bidder will not meet the obligations, as set out in the "Request for Proposal."

All bids not received on time or not complying with bid requirements should be rejected. A purchase order should be prepared and sent to the winning bidder. In the case of bids involving large amounts of money, a bid deposit (cash or bond) may be required at the time the bid proposal is submitted to the municipality. The deposit is to guarantee that the successful bidder will carry out the terms of the purchase. The deposit should be returned promptly to all unsuccessful bidders and to the successful bidder when the terms of the bid are met. Following is an example Request for Proposal:

**Request for Proposals
Icy View Water/Sewer Engineering Design**

A contract will be let with an Alaskan engineering firm that has experience in engineering design and construction of water and sewer systems in rural Arctic Alaska conditions using direct bury pipe.

The successful bidder will be required to do the engineering design and cost estimating to install water and sewer facilities, including a sewage treatment plant for a rural Alaska community of 250 residents located in Nome, Alaska.

An alternate water supply and environmental considerations are major assessments to be made for this project also.

Nome Joint Utility Systems reserves the right to reject and/or accept any and all bids or proposals received.

Bids or proposals must be received in the Utility Office by May 11.

Further information can be obtained by writing to Bill McKinney, General Manager, Nome Joint Utility Systems, P.O. Box 70, Nome, Alaska 99762.

Pub: April 18 through May 8.

Informal Bidding

When purchasing items with a value less than the bid limit, use the phone or write a letter to get informal price quotes before formally making the purchase. After all quotes have been received, the purchasing agent can make a more informed decision about purchasing those items.

PROPERTY CONTROL

Property control involves making and maintaining an inventory of all personal (movable) and real (non-movable) property owned by the municipality. For personal property, special control measures, such as a permanent identification number that is placed on the item, should be exercised because it is movable and is therefore susceptible to loss, misuse, or theft. Overall responsibility of property control rests with the Chief Administrative Officer (mayor or manager) or may be delegated or assigned to another responsible official, such as the purchasing agent.

SAMPLE BENEFITS OF A PROPERTY CONTROL SYSTEM

- Accountability is fixed, so losses due to negligence or theft are kept to a minimum.
- Property records provide a precise basis for insurance claims.
- Equipment replacement schedules can be established.
- Accurate records will prevent duplication of purchases.
- Surpluses in one department and shortages in another are more easily identified, allowing for more efficient use of equipment between departments.

Age and Value Limits

To keep administrative costs of property control within reason, limits should be set on the kinds of equipment that will be controlled. “Useful life” is one limit. For example, equipment with a useful life of less than one year may be excluded. Value is another limit used. The value limits used by different organizations may range from a few dollars to thousand of dollars. Fifty dollars is a commonly used limit in the low range.

Personal Property Control

The chief administrative officer (CAO) or someone appointed by the CAO should have overall responsibility for property control and be in charge of the property control system.

To establish a property control system, conduct a **physical inventory**. Three steps in performing the inventory are:

- Classify the property by type, such as “office furniture and equipment,” “transportation equipment,” “tools,” etc. A more detailed classification could include specific categories such as “motorized,” “janitorial,” “office-related,” and “recreational equipment.”
- Assign a permanent identification number to each piece of equipment. Stickers that can be attached to the item displaying the identification numbers can be obtained from an office supply company, or you can create your own. Markings or engraving may also be done by using transfers, metal tape, or embossed tape. As the inventory is being done, label each item with a number. The number serves as a code to identify the item. Retire the number after the equipment is disposed of.
- Prepare a file card for each item. Information put on the card(s) might include:
 - The name of the item.
 - A description of the item.
 - Serial number.
 - Model.
 - Condition.
 - Date acquired.
 - Location of the item.
 - Assigned department.

Much of this information can be gotten from the purchase documents. If they are not available, make estimates.

Establish procedures to keep the records up-to-date. Conduct an inventory yearly to verify that property records are correct, and that the property is where it should be.

In addition to other duties, the person in charge of property control is responsible for disposing of obsolete, worn-out, or unusable items. How and under what conditions equipment is to be replaced or disposed of should be set out by the governing body. Equipment may be disposed of in a variety of ways. Generally, however, items with some value are sold at a public auction.